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JOINT MEETING OF CHAPEL HILL TOWN COUNCIL AND OWASA BOARD OF DIRECTORS, TUESDAY, SEPTEMBER 28, 1993 AT 7:30 P.M.

Mayor Broun called the joint meeting to order. Council Members in attendance were Julie Andresen, Joyce Brown, Joe Capowski, Mark Chilton, Barbara Powell, Alan Rimer and Arthur Werner. Also in attendance were OWASA Board Members Tom McCurdy, Acting Board Chairperson Jim Mergner, Dan Vandermeer and Riley Wilson. Staff persons in attendance were Town Manager Cal Horton, Town Attorney Ralph Karpinos, OWASA Executive Director Everett Billingsley and OWASA Council Bob Epting.

Mayor Broun welcomed the OWASA Board members and other interested persons in attendance this evening. He expressed that there would be full participation by OWASA Board and Council Members at this evening's meeting. Acting OWASA Board Chairperson Jim Mergner noted that there had been extensive discussions over the summer concerning the length of time needed to complete assessment project and related cost concerns. Mr. Mergner noted that individual project costs were determined upon their completion. He noted that the OWASA Board had reached consensus that project costs should be based on pre-established rates. Mr. Mergner stated that project costs could be based on front footage, the number of lots served or the length of pipe installed. He also noted that the proposed assessments would not recover engineering fees which entailed up to fifteen percent of individual project costs. Mr. Mergner said in-house project management fees, legal and off-site would not be included in assessments.

Mr. Mergner noted that there were a number of project funding sources including OWASA, area towns, Orange County, benefitted parties and other grant-funding agencies. He said that project designs could be initiated once petitions were received from parties wishing to receive water or sewer services. Mr. Mergner also stated that an assessment could possibly be established on the basis of average cost per foot not including legal, off-site and engineering costs. Noting the dichotomy of whether sewer service should be considered a discretionary or essential amenity, Mr. Mergner said it was his personal understanding that changing sewer service to an essential service rather than an optional amenity would further reduce the true financial participation of local governments. He added that mechanisms were being put in place to address the concerns of residents in unsewered areas.

Mayor Broun said that no one doubted that there were sewer service problems which might affect the community's health. He expressed the community's appreciation for OWASA's willingness to address sewer service problems. Noting that he felt the proposed sewer assessment project rates were still too high, Mayor Broun emphasized the importance of fairness to OWASA ratepayers and Town taxpayers. He suggested that the Council and OWASA Board Members discuss possible sewer assessment figures in greater detail this evening. Mayor Broun noted that the Town might have to decide whether or not sales tax revenues would be set aside for specific

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sewer service projects. He also emphasized the importance of implementing a process whereby homeowners would have cost certainties early in the process and a longer period of time to pay availability charges.

Council Member Werner said the three primary issues were determining an assessment basis, providing service in a timely fashion, and equitably balancing service costs between OWASA, other parties and benefitting parties. He added that costs not included in assessments were acreage, administrative, legal, off-site and legal costs. Council Member Werner inquired how these exclusions would impact overall fees. Mr. Mergner said this would vary on an individual cost basis since offsite costs were very project specific. Council Member Werner emphasized the importance of establishing an assessment basis accurate to within plus or minus ten or fifteen percent for individual projects.

Mayor Broun inquired about the possibility of using the historical average of \$4,591 per lot as a basis. Mr. Mergner said the OWASA Board discussions had not focused on a uniform figure for all projects. Noting the importance of recovering actual project costs, Mr. Mergner suggested that funds from the general tax base might be used to subsidize project costs.

Council Member Capowski inquired whether it was necessary to the cost of each project or a series of projects. Mr. Mergner said it was necessary to recover the cost of assessment projects under existing laws while fairly treating parties being assessed. He inquired about the possibility of averaging a number of assessment projects over time. Mr. Mergner said the OWASA Board had expressed its preference for pre-establishing a rate to approximate historical project costs. Council Member Capowski inquired whether this was legally defensible on a per lot basis. OWASA Legal Counsel Bob Epting said OWASA's purchase and sale documents required that benefitting parties be responsible for recovering actual project costs. He noted that OWASA would be permitted to adopt a resolution making all the pending sewer service areas into one assessment project. Mr. Epting emphasized the importance of maintaining relative similarities between historical average and actual project costs, to maintain their legal defensibility. Mr. Epting said it would be unfair to say that any historical averaging result would be legal as a project cost basis.

Council Member Andresen inquired whether the University would have objections to these arrangements. Council Member Rimer said there were a finite number of elements involved in the assessment process. He noted that sewers built today would last a finite amount of time. Council Member Rimer also said that ratepayers were paying rates over time to maintain the sewer system, which would in turn degrade over time. Mr. Mergner said this matter had not been discussed in significant detail by the Board. He noted that the average OWASA customer paid approximately \$250 per year annually for maintenance of water and sewer facilities. Mr. Mergner said it would take approximately thirty years to recover

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all costs using this methodology. Council Member Rimer noted that he was attempting to reduce assessment costs to homeowners. He stated that sewer charges basically paid for outfall sewer on a prorata basis, maintenance and the actual cost of the local sewer plant and piping system.

Mr. Mergner said 70% of revenues received were for current operations such as annual operating costs of treatment plants and related maintenance while 30% of revenues were dedicated to capital needs. OWASA Board Member Tom McCurdy inquired how OWASA could possibly counteract developers who argued that the utility should also subsidize commercial installation and capital costs. Council Member Rimer stated that commercial and residential utility infrastructure costs were dissimilar since developers built some overhead costs and profits into the home prices.

Council Member Werner said he thought Council Member Rimer had raised an interesting point. He noted that the present need for sewer service was tied to concern about potential public health hazards. Council Member Werner said the term "benefitting parties" included a broad array of people, possibly incorporating the entire service area. Noting that Council Member Werner's point was well-taken, Mr. Epting stated that the term "benefitting parties" would not have been included in the purchase and sales agreement if it were intended to mean the entire community.

Council Member Andresen inquired about the process for amending OWASA's purchase and sales agreement. Mr. Epting said the agreement was between and among the two towns and the University. He said although it was not in OWASA's purview to initiate such a dialogue, they would nonetheless be interested in participating in any such discussions.

Emphasizing the importance of fairness to OWASA ratepayers, Mayor Broun inquired about the possibility of lowering assessment rates for sewer projects utilizing Town subsidies. He added that the average historical cost of \$4,591 appeared to be a fair starting point to lower assessment rates. Mr. McCurdy said he felt the line-foot method was preferable since it took into account lot size differentials. Mayor Broun said the \$4,591 cost figure came closer to the regional average for provision of sewer service. Mr. McCurdy noted that other communities had their own utilities which made direct contributions for water and sewer service related costs. Noting that the matter of sewer assessments had been discussed for quite some time, Council Member Werner said it should be possible to establish firmer figures for anticipated assessments. Council Member Andresen noted that \$122,000 of the Town's water and sewer sales tax fund had been set aside for the provision of utility services involving hardship cases.

Mr. McCurdy noted that an analysis by Town staff had found that sewer service costs averaged between 4.6% and 7.7% of the median value of a typical home. Mr. Mergner said the OWASA Board had been attempting to address the Council's concerns about assessments

raised at the June 9th joint meeting between the OWASA Board and the Council. He emphasized the importance of having a legal approach which was consistent across the entire OWASA service area. Council Member Capowski noted that all homeowners were concerned about the actual cost of receiving sewer service. He inquired how future petitioners would know of anticipated future service costs. Mr. Mergner said OWASA staff had not yet drafted this policy. He added that the Board would attempt to establish an assessment rate using the best available information. Mr. Mergner stated that the rate per linear foot of sewer line took into account topographic considerations and the layout of individual lots.

Council Member Andresen inquired about the utility of establishing an assessment rate cap. Mr. Mergner said that placing a cap on individual projects might make it more difficult to recover 100% of costs. Council Member Capowski inquired about the feasibility of assessments based on per linear foot pipe costs. Mr. Mergner said the current cost estimate was \$59 per linear foot. Mr. McCurdy added that there some uncertainties involved with assessments based on a per linear foot basis. He noted that the OWASA Board had earlier rejected the concept of placing a cap on sewer project assessments. Mayor Broun inquired whether the cost per linear foot took into account the elimination of engineering and other fees. Council Member Brown inquired whether the cost included estimates for rock excavation. Mr. Mergner said the variation in unknown conditions between individual projects was quite great. He added that rock excavation costs also varied by project.

Council Member Werner whether efforts had been made to compare OWASA's \$59 per linear foot cost to other communities, developers and the University. Mr. Mergner said no such comparison had been made. Council Member Werner said the University should have easily accessible cost numbers by project. Mr. Mergner said OWASA staff could possibly report back on this matter. He said unit costs would likely be consistent across agencies. Council Member Andresen said a weakness of the per linear foot method was that upfront costs were uncertain. She added that there were also serious disadvantages to the per lot method. Council Member Andresen emphasized the importance of developing a process so that petitioners could know anticipated costs up front. Council Member Rimer said he estimated that the amount of staff time spent discussing sewer service projects and costs possibly exceeded the actual total project costs. Mr. Mergner noted that the assessment procedure would need to apply uniformly to all projects. Mayor Broun noted that some additional burden was being placed on lower tax-valued neighborhoods.

Council Member Werner said the assessment policy would need to be more general than for the four neighborhoods currently seeking sewer service. Mayor Broun expressed his concurrence. Mr. Mergner noted that other neighborhoods might petition for sewer service in the future. Council Member Capowski asked whether all costs were directly passed through to benefitting parties. Mr. Mergner said benefitting parties would pay project costs less any offsetting

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external funds such as local government subsidies or other grants.

Mr. Mergner noted that sewer assessment costs in other communities involved tax base contributions which were offset by assessments. Council Member Werner noted that awards of government contracts were public information. Council Member Chilton noted that actual project construction costs might differ from original project bids. Mr. Mergner inquired about the proposed timeframe or schedule for moving ahead with the current sewer assessment projects. Mayor Broun said the Council could direct the Manager to come back with alternate proposals in the near future for the use of sales tax revenues for water and sewer service assistance for low-income persons and other assessment projects.

Council Member Brown emphasized the importance of having more information concerning bottom line costs for individual sewer projects. Council Member Andresen expressed concern about setting a schedule which would force the Council and OWASA to reach a decision and possibly hold up sewer assessment projects. OWASA Board Member Riley Wilson said the Board had reached the point of diminishing returns in terms of lowest possible costs. Mr. Wilson said he liked Council Member Rimer's idea of examining the revenue side of the assessment question. Noting that in his opinion, OWASA had gone as low as possible in terms of setting project assessment costs, Mr. Wilson inquired about the possibility of the Town reducing costs further through the provision of subsidies. Mr. Mergner emphasized the importance of moving ahead with the sewer assessment projects expeditiously. He added that Town subsidies would be useful in recovering some project costs.

Mayor Broun emphasized the importance of the Town and OWASA Board moving ahead as quickly as possible on the community's sewer service concerns. He also noted that efforts should be made to keep costs as low as possible.

Council Member Andresen requested that the Manager's follow-up report outline options for use of the revolving grant fund for sewer projects. She also suggested that the Town consider initiating discussions with the Town of Carrboro and the University about OWASA's sales and purchase agreement. Council Member Andresen inquired whether the Town was going to take a more proactive approach about sewer service prior to the failure of septic systems.

Mr. McCurdy stated that OWASA's project costs were somewhat higher because most projects were small-scale. He suggested that larger projects could create economies of scale resulting in potential cost savings for all parties.

Mayor Broun inquired how the Council wished to follow-up on sewer service concerns. Council Member Andresen suggested that the Manager outline options for the Council's consideration. Mayor Broun inquired whether the OWASA Board or Town should initiate follow-up on the future provision of sewer service in the

community. Mr. McCurdy suggested that the Town and OWASA Board have a common goal on the provision of sewer service to the area. Mayor Broun suggested that a tentative policy could be discussed by the Council and other local government boards. Mr. Mergner said this sounded like a reasonable approach.

Mayor Broun stated that discussions needed to be initiated on OWASA's purchase and sales agreement. He added that an overall assessment policy needed to be developed as soon as possible. Mr. Mergner expressed his concurrence adding that OWASA was proceeding with immediate actions to address sewer service concerns. Mayor Broun inquired when the OWASA Board would complete its work. Mr. Mergner said it would likely take several more months to formulate policies in sufficient detail. Council Member Andresen inquired about the possibility of a briefer timeframe. Mr. Mergner said this might be possible. Noting that Council elections were only about five weeks away, Council Member Werner suggested that expediency might be preferable to starting over again in January, 1994.

Mayor Broun inquired when the Manager could bring back a report to the Council. Mr. Horton said October 13th. Mayor Broun said the report needed to come back by October 25th at the latest. Council Member Werner said it would be preferable to have sewer service available to the entire area within five years. Mr. McCurdy said it would be necessary to significantly increase sewer rates to achieve this objective. Mr. Mergner said only so many projects could be managed due to staff limitations. Mayor Broun expressed the Council's thanks to the OWASA Board members for their participation in this evening's joint meeting. Mr. Mergner expressed the Board's appreciation to the Council.

The joint meeting concluded at 9:22 p.m.